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CAMPEAU'S NEW TAX LOOPHOLE—
NEW LIFE IN THE TAKEOVER GAME

OCTOBER 31, 1988 THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

IS THE PROSPERITY HOLLOW?

Is debt out of control...
Do we owe too much to foreigners...
Are we really living beyond our means...
Has deregulation gone too far...
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Forbes

Cover illustration by Stephen Johnson

34 *Bullion and diamonds*

40 *Steven Ross of Warner*

OCTOBER 31, 1988
VOLUME 142
NUMBER 10

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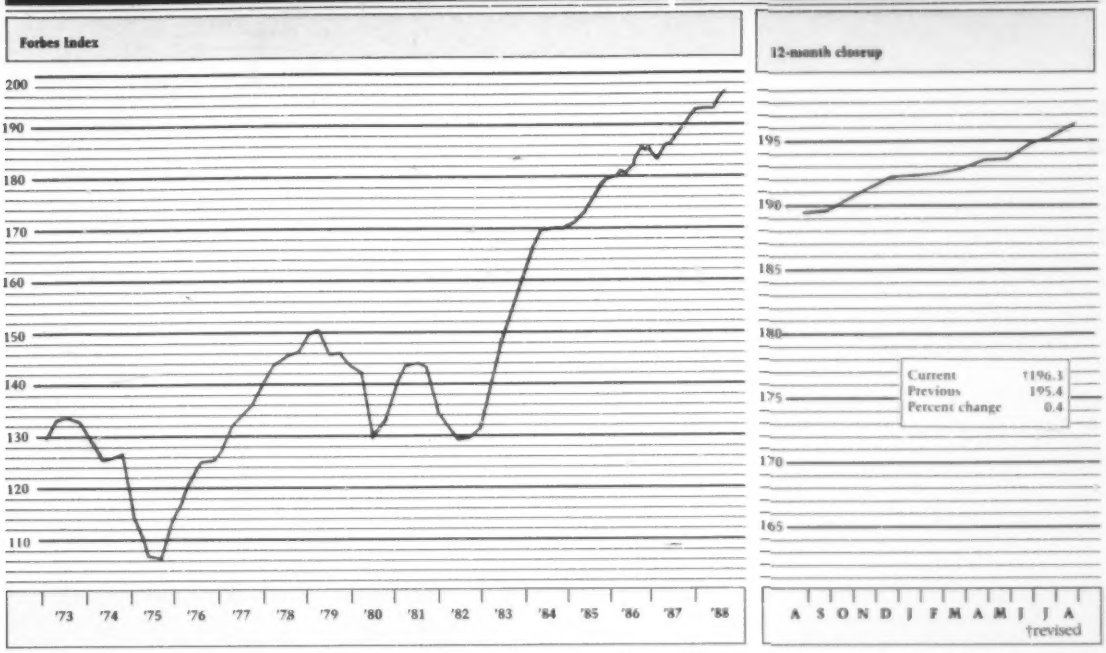
The Forbes Index



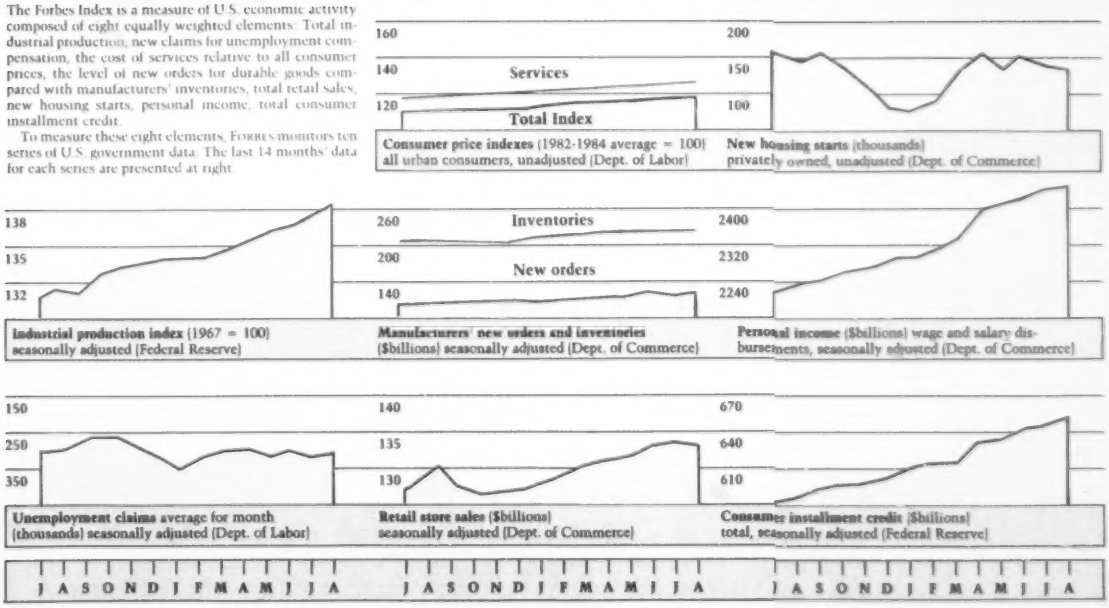
Breathing room. Consumer installment credit rose 0.8% in August, to $653 billion. This represents a 6.7% increase since December 1987. During the same period, however, personal income climbed 7.8%, to $2.46 trillion. Manufacturers' new orders in August were off 1.9% from their June peak but are 5.9% higher than they were during a short-lived slowdown in July. Corporations, meanwhile, have been doing a good job managing their inventory levels: The August figure for manufacturers' inventories is up only 0.4% over the July result.

The unemployment rate dipped in September to 5.4%, the lowest level in three months. The Forbes Index ended August with a 0.5% gain. This marks the seventh straight month in which the Index has closed at a record high.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


160
140
120
Services
Total Index
200
150
100
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
138
135
132
260
200
140
Inventories
New orders
2400
2320
2240
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
150
250
350
140
135
130
670
640
610
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
J A S O N D J F M A M J J A
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Sotheby's Art Market Trends

Index sectors	Sept 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years % change	Five years average annual % change
Old Master paintings	403	403	349	303	217	nil	+15.5	+33.0	+85.7	+13.2
19th-century European paintings	361	361	303	250	197	nil	+19.1	+44.4	+83.2	+12.9
Impressionist & Post-impressionist art	1,091	1,091	661	432	298	nil	+65.1	+152.5	+266.1	+29.6
Modern paintings (1900-1950)	1,090	1,090	666	429	275	nil	+63.7	+154.1	+296.4	+31.7
Contemporary art (1945 onward)	728	728	597	542	383	nil	+21.9	+34.3	+90.1	+13.7
American paintings (1800–pre-WWII)	958	958	789	687	501	nil	+21.4	+39.4	+91.2	+13.8
Continental ceramics	407	407	320	290	272	nil	+27.2	+40.3	+49.6	+ 8.4
Chinese ceramics	684	684	550	486	445	nil	+24.4	+40.7	+53.7	+ 9.0
English silver	388	388	349	338	219	nil	+11.2	+14.8	+77.2	+12.1
Continental silver	260	260	201	192	156	nil	+29.4	+35.4	+66.7	+10.8
American furniture	469	469	452	380	239	nil	+ 3.8	+23.4	+96.2	+14.4
French & Continental furniture	355	355	319	285	249	nil	+11.3	+24.6	+39.8	+ 6.9
English furniture	784	784	594	447	309	nil	+32.0	+75.4	+153.7	+20.5
Aggregate index*	660	660	475	369	275	nil	+38.9	+78.9	+140.0	+19.1

Basis: 1975 = 100 ($).
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*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.
Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Market highlights

September, traditionally a light month for the auction houses, saw a notable auction in London—the sale of more than 2,000 lots belonging to British rock star Elton John. John's collection, built over 20 years and ranging from pop memorabilia to fine jewelry, sold for $8.2 million.

The event had a number of elements in common with last season's two main "celebrity sales," the collections of Andy Warhol and Liberace. The Elton John collection contained many of his stage costumes and other entertainment memorabilia, as well as a number of items that stood as fine works of art in their own right. Among the fine works of art, "Hommage à Alphonse Allais" by René Magritte sold to a Belgian collector for $119,680, more than $34,000 above the top estimate. Prices for the star's eyeglasses—the hallmark of his personal style—and his elaborate stage costumes fetched many times expectations. For example, a pair of illuminated eyeglasses estimated to sell for $1,350 to $2,000 brought $16,830.

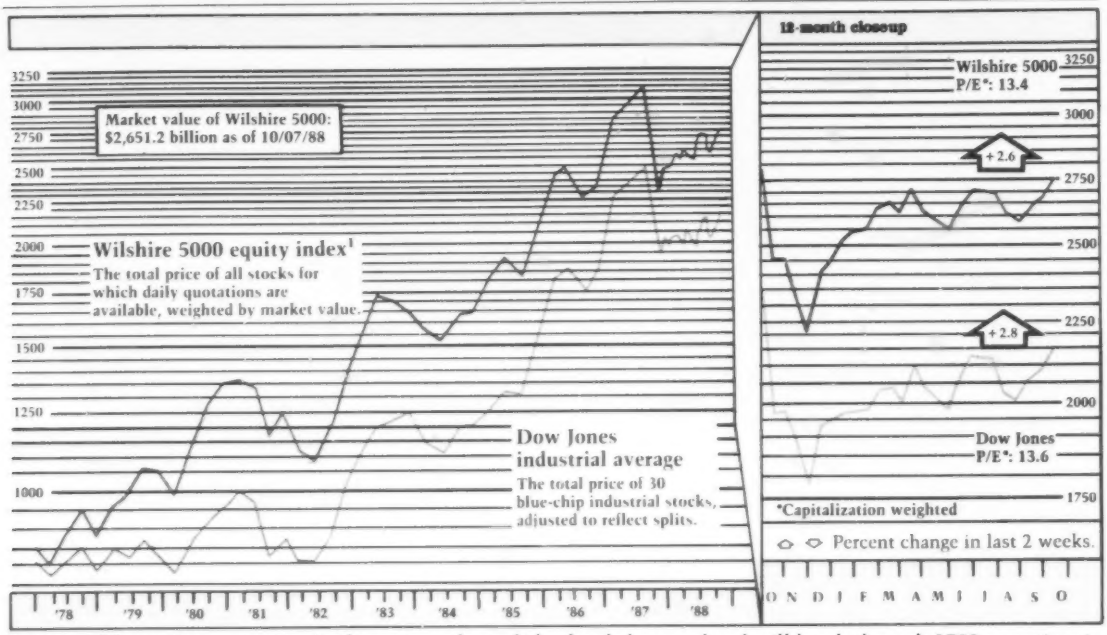
Toward the end of the month, again in London, the British Rail Pension Fund disposed of a further part of its artwork collection, selling its books and manuscripts. The fund's managers had acquired art specifically for investment purposes in the latter half of the 1970s, when inflation was at an alltime high and investment managers were looking to "alternative investments" to provide a real return. A couple of years ago the fund changed policy direction under new management and decided to sell parts of the collection. The results of these sales thus far have produced price rises that have kept pace with or exceeded inflation rates.

Plate from "Birds of Australia"

Selling for a total of $4.4 million, the book and manuscript collection exceeded pre-auction price expectations. Among the highlights, a 16th-century Italian atlas (the Doria Atlas) went for $420,750, and John Gould's "Birds of Australia" sold for $317,900. The British Library was the successful buyer, at $224,000, of the third volume of "Juvenilia," a Jane Austen manuscript containing two of her earliest novels. Since the manuscript is considered an important document of Britain's literary heritage, the British were relieved to win the competitive bidding round and retain the manuscript in their country.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Dreams of lower interest rates. In the two weeks ended Oct. 7, the Dow industrials moved up almost 60 points, or 2.8%, in a rally that favored big stocks. The NYSE was up 2.9%, the Amex 1.6% and the Nasdaq only 0.2%. The Dow, which closed at 2150, is once again at the upper end of its postcrash trading range.

Encouraging words are being heard. Thus, for example, John C. Brooks, a managing director of Atlanta-based securities firm Marshall & Co., thinks that the market is headed upward and will break through 2700 sometime in 1989. Brooks points to four sectors that have performed very well since June: brokers, S&Ls, insurers and utilities. He reads this as an expectation of lower interest rates.

If interest rates do come down, investors may be willing to pay a higher multiple for stocks. The Dow is now trading at 13.6 times latest 12-month earnings, while the Wilshire P/E is 13.4. One year ago, prior to meltdown Monday, the respective multiples were 21.3 and 20.2.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.7	4.1	3.9	4.0	2.1	1.1
in last 52 weeks	–10.5	–11.7	–13.4	–10.2	–12.4	–12.0

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over $35	under $4
in last 4 weeks	4.2	0.8	1.1	1.0	0.3	2.8	1.6	3.3	0.9	2.5	3.8	–0.4
in last 52 weeks	–5.9	16.9	18.2	7.5	–5.9	2.9	4.7	22.4	17.3	4.1	–2.8	11.9

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

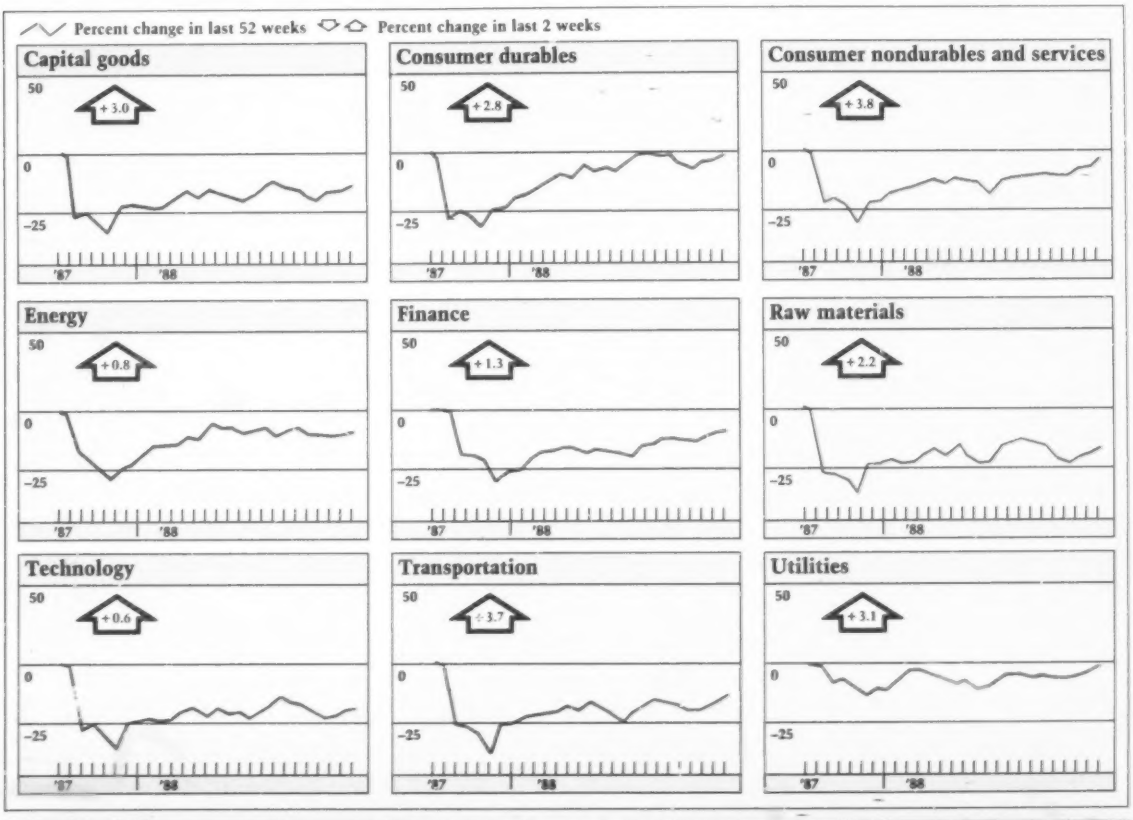
Note: All data for periods ending 10/07/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Problems in Lotusland. On Oct. 7, when the market rallied 42 points, Lotus Development dropped 3, to 16¼, after announcing additional delays in the upgrade for its main software program, 1-2-3. The drop in Lotus contributed to the weak showing for the technology sector. Lotus has lost about $1 billion in market value over the past 12 months as its capitalization declined to $750 million. Yet the bears are looking for more trouble. Between August and September the short interest on Lotus doubled to about 1 million shares. This was the second-largest increase in short interest on the Nasdaq.

Terence Quinn, a software analyst at Drexel Burnham, expects Lotus to earn only $1.50 this year, which gives the stock an estimated 1988 earnings multiple of 11.2.



What the Analysts Think

In reverse. Transportation stocks show the sharpest cuts in 1988 earnings estimates. Hit hardest was Kansas City Southern, which saw forecasts reduced 19 cents, to $2.62. In addition, this company is challenging a $600 million judgment awarded against it by a South Dakota jury. Burlington Northern and CSX also had lower forecasts.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.20	12.4
1988 estimates	3.59	11.0
1989 estimates	3.96	10.0

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Consumer durables	$4.70	11.1	0.59%	0.75%
2	Raw materials	3.23	9.7	0.21	0.60
3	Capital goods	2.63	14.3	0.08	0.17
4	Finance	3.42	8.9	0.07	–0.50
5	Utilities	2.39	10.4	0.05	–0.10
6	Energy	3.21	12.0	–0.22	–1.06
7	Consumer nondurables	2.45	14.2	–0.26	–0.32
8	Technology	2.92	11.6	–0.47	–0.75
9	Transportation	2.26	12.4	–2.00	–2.91

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 10/07/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.